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## STATE AND FEDERAL CONTROL OF BANKS

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It is of inestimable value to the public to have good laws regulating the banking business and providing, among other things, for examination of all banks by duly appointed competent examiners to see that the laws are complied with. Notwithstanding this there is an apparently honest minority who prefer entire freedom in their banking methods. Let us very briefly diagnose the case to see if free banking is really an open question.

It would seem that a few summarizations from the best authorities would suffice. John J. Knox in his "History of American Currency" refers pointedly to the smaller losses to depositors in states having good banking laws, as against states without such laws. His references referred to the days when free banking predominated. I have been engaged in the banking business for nearly fifty years, and the calamitous results to the people in the wildcat days of a free banking system were so impressive that death alone can obliterate their abominations from my mind. The history of banking in all nations is full of facts which seem to cry out for laws requiring stringent examinations.

It is well known to all students that previous to 1900 most of the states had either no laws or indifferent ones regulating state banks. Some states, especially some among the older eastern ones, have long had good laws; and, in those states, the losses to depositors have been proportionately much smaller than in the other states with lax laws or no laws at all.

### *Results 1863 to 1896*

A compilation of the general results of the examination and regulation of banks in the United States is found in the 1896 report of the Comptroller of the Currency, which compares results under the national banking system with those under the several state banking systems. From 1863 to 1896, 330 national banks and 1,234

state banks failed in the United States. The claims filed, dividends paid to depositors and amounts unpaid, were as follows:

	Claims filed.	Per cent paid depositors.	Still due to creditors.
National banks .....	\$98,322,170	63 8/10	\$35,556,026
State banks .....	220,629,988	45 4/10	120,541,262

As further dividends were afterwards paid by banks *not entirely closed*, Ex-Comptroller Ridgely, in 1903, referring to the above report, made this significant comment: "It will be seen that while only six and one-half per cent of national banks in existence failed during this time, seventeen and six-tenths per cent of the other banks in existence failed. And while the national banks which had failed up to 1896 (and were entirely closed) *paid seventy-five per cent* in dividends, the state and other banks *paid only forty-five per cent.*"

Comptroller Murray, in summing up his report for 1909, as to national banks and Bradstreet's report as to state banks from 1863 to 1909, states that 508 national as against 2,014 state banks failed. The percentage of total failures of national banks, 6.5 per cent up to 1896, was reduced to 5.04 per cent in 1909. The per cent of the state bank failures was not stated, but his figures clearly indicate an increase over those up to 1896. Comptroller Murray's 1909 report also shows an increased total percentage paid to depositors of national banks, which indicates greater efficiency in the jurisdiction of the comptroller's office and more conservatism on the part of bankers.

### *World Comparisons*

Supervision of banks, state or national, is very limited in the other progressive nations of the earth. However, the world's bank failures and losses to depositors show conclusively that the national banking system of the United States has proved to be the safest for depositors. Its only material defect is its inelastic methods of issuing currency. Some good men still hold up as better models for us to follow the old state banks of Indiana, Louisiana and others which, although they proved safe, died a natural death largely because of over rigid regulations, under which progress was stifled instead of encouraged. This fact may readily be shown.

*State Bank of Indiana*

On all applications for loans above \$500 a majority vote of five-sevenths of the board was necessary, and the vote had to be entered on the minutes, with the names of the directors voting. Directors were individually liable for losses resulting from infraction of the law, unless they had voted against the same and caused their vote to be entered on the minutes, and had *notified the governor of the state* of such infraction forthwith, and had *published their dissent in the nearest newspaper*. Any absent director was deemed to have concurred in the action of the board, unless he should make his dissent known in like manner within six months.

*Louisiana Bank Act of 1842*

First. One-third of all liabilities must be in specie.

Second. The other two-thirds in not over ninety-day paper.

Third. All commercial paper to be paid at maturity and if not paid, or if an extension were asked for, the *account of the party to be closed and his name sent to the other banks as a delinquent*.

With such ridiculous methods our present progress would be palsied. To require to-day for all banks in the United States  $33\frac{1}{3}$  per cent of all liabilities in coin, as against individual deposits alone of 14,000 millions of dollars, would lock up 4,600 millions of dollars in specie; whereas banks now hold about 1,100 millions of dollars in specie.

The free coinage of silver is out of the question, and the world's stock of gold is in active demand. Where would the gold come from to carry out the provisions of the Louisiana bank act?

*European Experiences*

Owing undoubtedly to a single bank of issue in each nation, standing like a great water reservoir to quench a general conflagration, the banks generally there hold about one-half the coin reserves held by the banks in the United States; yet the institutions of Europe have not suspended cash payments for fifty years, as we did to our great dishonor in 1907 and not quite so generally in 1873 and 1893. To provide a currency system which will prevent suspension of cash payments by banks generally in the United States, and which will tend to prevent calamitous results therefrom, is the paramount question for us to solve; but, in Europe, the failure to adequately regu-

late banks by law and properly to supervise them by competent authority has thrown an unnecessary burden upon stockholders and depositors of banks during the past fifty years. This is well illustrated by the City of Glasgow Bank.

### *Glasgow Failure*

The City of Glasgow Bank with 131 branches, under freedom of banking, failed in 1878 for \$70,000,000. Its losses were \$35,000,000, which sum is about equal to the total losses to all the depositors of the vast regulated national banking system of the United States from its inception in 1863 to the present date. That loss was shouldered by the large list of stockholders of the Glasgow bank, under the then "unlimited liability act." This act cost one stockholder, holding but £1,000 of stock, his whole fortune of £1,000,000. The American Encyclopedia says "because of the wide-spread holdings of the stock of the bank, the failure amounted to almost a national disaster." This failure seems to show that it is sometimes better, as under our independent banking system, "to hang separately than to hang together" under the branch banking system.

The "unlimited liability" act has in consequence of the terrible results been suspended, and now holds good only in voluntary cases. To avoid unlimited liability, the word "limited" must follow any corporate name. I might cite other calamitous conditions which occurred in 1836, 1847, 1857, 1866, 1878, and 1890, in Great Britain, and the failure of "The Credit Mobilier" in France; but it seems superfluous. I have no doubt that such distressful conditions would have been greatly ameliorated if good laws and examinations had been in force.

In view of the fact that most of the states, up to ten years ago, permitted entire freedom in banking methods, it is cause for congratulation that great progress in regulation has been made in many states. This fact is clearly shown in the late report of a special committee on banking in Wisconsin. The report shows that state laws require that

- (1) Directors must examine banks in twenty-one states.
- (2) There is special bank supervision in thirty-five states.
- (3) Some state or other official shall examine banks in thirteen states.

This report states that nearly every state in the United States now has some kind of laws regulating the banking business, and, that many of the state banks are subjected to examinations. Our defective currency system caused many bank suspensions in 1907; yet, because of the marked improvement in banking laws, and in supervision, most of the suspensions were temporary. The losses to depositors also were far less than in the past under free banking. The fact that more than one hundred millions of dollars was locked up, in 1907, in suspended banks in New York State, and that not a dollar was lost to a depositor, is evidence that New York State now has good banking laws. Some state laws are still too lax, and all should be so modified as to comply with the best laws regulating eastern savings banks and trust companies. The state banks doing largely a commercial business should be compelled to follow closely the requirements of our most beneficent national bank act. The Wisconsin law is a good model for state banks, as not a dollar has been lost to a depositor since the law was enacted about six years ago. This law is modeled largely upon the national bank act; but is more liberal as to the percentage of loans to any person or firm. This provision, owing probably to excellent supervision, has produced no ill results. To my mind, however, the national law is the better of the two.

It is the clear duty of the legislators of Europe to the people as a whole to regulate reasonably the great banking systems there, that losses to innocent depositors may be limited to the lowest point compatible with the fact that perfection is impossible and that the millenium will never be attained on earth.

The meat of the whole matter lies in passing good banking laws and enforcing them by strict examinations, in closing up the insolvent banks and not allowing them to dissipate good assets for years after becoming insolvent under incompetent or dishonest mismanagement. The banking power of the United States is about two-thirds that of the rest of the world. We should give the twenty-five million depositors having 14,000 millions of dollars on deposit—both growing constantly—all the protection wholesome laws can give. By limiting bank failures, panic conditions and general commercial distress will be ameliorated. Good banks generally court investigation, and the people should insist on rigid control of all banks for the purpose of weeding out those which are insolvent.